The Business Value of Impact Measurement

Session Description: The GIIN will share preliminary findings from a soon-to-be released qualitative study of the connection between impact measurement and business value. The session will be an opportunity to hear the latest findings, ask questions, and share feedback with the GIIN.

- Hannah Schiff, The GIIN
- Jaime Ramirez, Grassroots Business Fund

**Topic: Deep dive into the GIIN’s Annual Impact Investor Survey – Hannah Schiff, the GIIN**
- The mission of the Annual Impact Investor Survey was to better understand the business value motivations for measuring environmental & social impacts
  - Survey covers diverse geographies, impact types and investor types
  - Business value, for the purposes of this study, is defined as monetizable and strategic
- Found that 4/5 respondents use data to measure social and environmental performance which then informs business decisions. This data is most commonly used for:
  - Pre-screening and due diligence (80%)
  - Improving investment management (58%)
  - Informing portfolio allocation decisions (56%)
- Unexpected finding – achievable impact is core to the investor strategy
- There were 5 types of values derived from measuring impact:
  - Investment decisions
  - Revenue growth
  - Operational effectiveness
  - Marketing and reputation building
  - Strategic alignment and risk mitigation

**Topic: Measurable impact & business value – Jaime Ramirez, Grassroots Business Fund**
- Grassroots Business Fund worked with Root Capital to help them simultaneously create measurable impact and business value.
- They found that better knowledge of suppliers and relationships with them allows a company to create more loyalty in their supply chain. By investing in the network of suppliers a company can improve their margins over time.
  - For example, the more supported farmers feel the more they demonstrate loyalty.
- The more companies know about the artisans they work with, the more they can communicate the stories of the artisans to consumers. Communicating the story of the humans behind a product is an important product differentiator.
The quality of the information gathered is directly important to the core business. For example, using the information gathered for certifications can be integrated into the core business and used for reporting on impact.

The depth of the information we can provide to our stakeholders is dependent on what we can gather on the ground.

• Q&A:
  o How are people prioritizing impact?
    ▪ There is a tradeoff between financial and impact measurement
    ▪ Companies need to make their own decisions about the tradeoffs when measuring impact
    ▪ There hasn’t been much focus on this topic (i.e., evaluating the potential negative unintended consequences of focusing on X impact over Y impact). The focus for now is on how to mitigate adverse ESG impacts.
      • Eventually there will be more of a need to address the tradeoffs of looking at once impact measurement over another
  o Is there an urgency to look at the quality over intent? What’s the difference between an impact investor and a traditional investor? Why call yourself an impact investor if you’re not analyzing impact?
    ▪ Impact investing is systematic. The hope is that it will change investing globally
    ▪ The intermediary landscape for impact investing is growing
    ▪ We are getting to the point of being able to understand and recognize what sophisticated measuring of impact looks like
    ▪ It is problematic to use traditional finance to measure in an unconventional space
    ▪ Measuring impact is still very new – the GIIN launched this study to make this more normative
    ▪ The GIIN study is trying to get to the root of how impact is measured? How often? Who does it?
    ▪ There is a need to shifting mindsets from doing data collection for reporting to doing it for strategic purposes
  o What do we do about the lack of market pressure to create better impact information? What does this lack of market pressure mean for the sustainability of impact investing as a sector/field?
    ▪ GIIN is trying to create this information by making this report
  o What are the 2-3 things that we need to be measuring in our businesses so that we can be the most effective and impactful?
    ▪ There are no one size fits all metrics that are appropriate for all organizations
    ▪ What we need to keep in mind is the need to measure impact in order to feed that information back into the business for continual improvement
  o How can the ANDE community promote more government/policy/regulatory amenability to impact investing?
That’s often not the issue. Many developing world governments aren’t incentivized to be independent and striving to attain financial independence from the west. Rather they are dependent and want to continue to be dependent on foreign aid/philanthropy.

- How have funds decided to measure social impact?
  - There is a lack of standardization of approaches for investors measuring impact and/or environmental & social performance

Key Takeaways:

- Of the investors surveyed, most believed that measuring environmental & social impacts had business value
- The most common ways of seeking impact are through: selling products/services that benefit a target population, providing employment to a target population, selling products/services that benefit the environment, and pursuing operational improvements that benefit the environment
- Investors defined the main business values gained from measuring impact as the ability to: inform investment decisions, generate revenue growth, inform operational effectiveness, strengthen marketing and reputation building, strategically align with a defined mission, mitigate risks
- Gathering quality information on the ground helps organizations better connect with the people on the ground which can ultimately result in supplier loyalty and opportunities for product differentiation
- Measuring impact is still very new. There is a need for more research to shed light on what works and what doesn’t. The GIIN report is therefore helpful as it sheds light on what the common practices are and where the industry is moving.

Additional Resources:

- The GIIN’s Annual Impact Investor Survey